

Legislative Audit Division

State of Montana



Report to the Legislature

February 2003

Performance Audit

Virginia and Nevada City Historic Site Management

**Montana Heritage Preservation and Development Commission
Montana Historical Society**

This report contains recommendations for strengthening site management through development of business-like controls and defined accountability. Recommendations address:

- ▶ Reallocating Staff Resources.
- ▶ Consolidating Property Management.
- ▶ Prioritizing Artifact Management.
- ▶ Re-defining the Role of the Commission.
- ▶ Restructuring Site Management.

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Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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February 2003

The Legislative Audit Committee
of the Montana State Legislature:

We conducted a performance audit of the management of the historic Virginia and Nevada City sites. This report contains recommendations for strengthening site management. Written responses from the Montana Heritage Preservation and Development Commission and related parties are included at the end of the report.

We appreciate the cooperation and assistance of Commission, Montana Historical Society, and Department of Fish, Wildlife and Parks staff during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Performance Audit

Virginia and Nevada City Historic Site Management

**Montana Heritage Preservation and Development Commission
Montana Historical Society**

Members of the audit staff involved in this audit were Angie Grove, Alexander S. Gulde, and Mike Wingard.

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Appointed and Administrative Officials

Montana Heritage

Preservation & Development Commission

Rosana Skelton, Chair	Helena
John Lawton, Vice Chair	Great Falls
Jeanette McKee	Hamilton
Bill Howell	West Yellowstone
Senator Dale Mahlum	Missoula
Representative Diane Rice	Harrison
Maureen Averill	Big Fork
Mary Oliver	Ennis
Arnie Olsen	Helena
Doug Monger	Helena
Mark Simonich	Helena
Brian Cockhill	Helena
Patrick Keim	Helena
Judy McNally	Billings
Jeff Tiberi, Executive Director	

Montana Historical Society

Arnie Olsen, Director

Department of Fish, Wildlife and Parks

Jeff Hagener, Director
Doug Monger, Administrator, Parks Division

Introduction

At the request of the Legislative Audit Committee, we examined activities of the Montana Heritage Preservation and Development Commission (the Commission) in relation to its management of Virginia and Nevada Cities. Initial questions focused on whether the historical properties were being managed to become self-sufficient and operated in a manner consistent with the original legislation.

Background

On April 23, 1997, the Montana legislature authorized the purchase of the Bovey properties in Virginia City and Nevada City for \$6.5 million (\$5 million for the artifacts and \$1.5 million for the buildings and land). The purchase was finalized in May 1997, resulting in state ownership of about half the historic structures in Virginia City and all of Nevada City. The Montana Heritage Preservation and Development Commission was established primarily to manage the sites. The Commission was attached to the Montana Historical Society for administrative purposes and consists of 14 members.

Site Revenues and Expenses

Due to the remote location and long winters of Virginia City and Nevada City, the tourist season for the sites is primarily limited to a three-month window (June through August) with some activity during the Christmas season. Earned revenues have been increasing over the past six years. Annual revenues are now approximately \$300,000.

Overall operation expenses have fluctuated in the past six years, depending on availability of funding and operational changes. Total expenditures were approximately \$760,000 in FY 1999, \$840,000 in FY 2000 and \$1.2 million for both 2001 and 2002. The majority of site expenses are staff salaries and benefits (approximately \$650,000). Although site revenues have increased, operational expenditures cannot be fully supported without the bed tax.

The Commission currently must rely upon the bed tax support (\$400,000/year) to help fund operations. Although this funding support is currently mandated to end in fiscal year 2007, it is clear site operations would have to be significantly scaled back without this support. Staffing levels, marketing efforts, and visitor services

Report Summary

could not be maintained at their current levels. Currently the statutes indicate General Fund money will not be provided for the operation and maintenance of the sites. But there are no specific restrictions on continued support from other sources including the bed tax. After six years of operation, the legislature now has more information available to make informed decisions. We believe the legislature should re-evaluate their intent in this area.

Have Business Controls Encouraged Profitability?

Section 22-3-1003(1)(f), MCA, states “management activities must be undertaken to encourage the profitable operation of properties.” To examine this area, we reviewed the types of business-like controls developed by the Commission to direct profitable activities.

In an effort to achieve site profitability, the Commission has requested various studies and plans. These studies addressed a wide range of topics including marketing, building prioritization, stewardship, etc. But the major emphasis of these studies focused on site management and increasing economic self-sufficiency. We used these studies as criteria or benchmarks for highlighting priority areas/controls for Virginia City and Nevada City operations.

Overall, we found many of the study recommendations have not been implemented with regard to the priority areas or suggested business controls. This is illustrated in several ways:

- ▶ A full-time on-site manager position has not been created to ensure consistency and accountability in day-to-day operations as recommended in the Commission’s Preservation and Interpretation Strategy.
- ▶ Only 4,000 artifacts (with 500,000-1,000,000 estimated) have been formally entered on the Commission’s database in six years. Inventory issues relating to resource support, staff priorities, and site maintenance cannot be resolved. Projections from Commission staff range from 3 to 217 years to complete the inventory.
- ▶ Development of staff controls has been limited. No performance appraisals and limited review of staff productivity illustrate a general lack of management emphasis. Personnel management

Report Summary

is addressed in all the management plans developed for the Commission.

Conclusion: Business Controls Need To Be Implemented

As one commissioner suggested “the project has matured and it is time for the management system to mature with it.” In general, interviews with stakeholders and review of Commission minutes suggested limitations with current site management. A 14-member commission that meets four times a year has difficulty providing the hands-on attention sites as dynamic and complex as these require. Several steps are needed to assure compliance with legislative intent as well as to improve/strengthen Virginia City and Nevada City business controls. These steps include:

- ▶ Developing a system of staffing controls.
- ▶ Allocating staff to address priority workload areas.
- ▶ Consolidating property ownership and management.
- ▶ Establishing a timeline and method for completing the artifact inventory.

What are the Site Management Options?

During the course of this audit, several options were raised by stakeholders regarding changes needed in site management. Commission members and other involved stakeholders outlined four options for providing a future approach to site management. Some commissioners believe the Historical Society should be removed from the current management structure and the Commission could assume all responsibilities. Another suggestion was made to dissolve the Commission. Subsequently, the Historical Society could assume all management responsibilities related to Virginia City and Nevada City. A third suggestion was to move site management to the Department of Commerce to provide a tie with economic development and tourism. A fourth option suggested was management by the Department of Fish, Wildlife, and Parks (FWP) through the Parks Division. We specifically examined each of these options. Based on this review, we believe the Parks Division has more controls in place and experience to support this type of operation than the other options.

Report Summary

Site Management Could Be Strengthened by Transferring Control to the Parks Division

Within Montana, the Parks Division has experience in managing diverse historic and cultural sites such as Bannack and Chief Plenty Coups State Parks. Although these sites are not as complex and diverse as Virginia City and Nevada City, the division has developed a methodology for site management to assure a level of accountability and consistency statewide. In addition, the Parks Division has resources available for managing sites not available in a small agency such as the Historical Society and experience in concessionaire management. Supportive services such as legal, information systems, construction/design, and land agents are all available for state parks use. The suggested controls needed for Virginia City and Nevada City are currently utilized at state park operations. We believe there are specific areas at Virginia City and Nevada City where the Parks Division could provide strong oversight and management.

Conclusion: Management Structure Could Be Strengthened

We believe a transfer of Virginia City and Nevada City management to the Parks Division warrants legislative consideration for several reasons including:

- ▶ No other government operation appears to have a site management system that is as comprehensive and compatible.
- ▶ Stakeholders are frustrated with the current lack of structure/business approach.
- ▶ Similar operations across the nation are operated as state parks.
- ▶ Operations will likely become more effective in addressing planned development and preservation goals.

A transfer in management responsibilities would clarify the current dual management roles and streamline state governance of these historical sites. Management staff within the Department of Fish, Wildlife, and Parks and the Society has indicated a willingness to support this transfer and change in management structure.

Report Summary

We believe the future role of the Commission should change to adopt a structure similar to an advisory council or a private foundation. The commission would not be responsible for day-to-day oversight or staff supervision responsibilities but would focus on general site development and financial support.

Conclusion: Commission Role Should be Changed

Overall, we believe the duties of the Commission should be changed to remove site management responsibility and focus on policy. The members should act as consultants to the Parks Division in managing these sites. Statutes can be amended to clarify their role as an advisory resource attached to the Department of Fish, Wildlife, and Parks. Other more specific site management responsibilities currently outlined in the law would no longer be needed.

Chapter I - Introduction

Introduction

At the request of the Legislative Audit Committee, we examined activities of the Montana Heritage Preservation and Development Commission (the Commission) in relation to its management of Virginia and Nevada Cities. The management of the sites, which include a wide variety of buildings, artifacts, and properties within the town of Virginia City and the entire town of Nevada City, was the primary reason for creating the Commission. The legislature gave the Commission responsibility for overseeing operations of Virginia and Nevada Cities. Initial audit questions focused on whether the historical properties were being managed to become self-sufficient and operated in a manner consistent with the original legislative intent.

Audit Scope and Objectives

Statutes require management of these sites be undertaken to encourage profitable operations. Based on this legislative direction, audit objectives focused on examining whether the sites are being managed to become economically self-sufficient and if business controls are in place to provide strong management oversight. We examined Commission management activities for the past six years.

Audit Methodologies

To address our objectives, we gathered information related to the original purchase in 1997. We interviewed key stakeholders involved in the 1997 legislative process. Interviews were conducted with staff at the National Historic Trust, park managers in other states, legislators, local business owners, Commission staff/members, and agency directors. We reviewed expenditures and revenues for the sites since the original purchase. Projected budgets were also obtained from Commission staff. Commission and Montana Historical Society minutes were examined to determine and evaluate steps taken to address and manage economic self-sufficiency. Resources committed to administer similar sites both in-state and out-of-state were identified.

We obtained information on the status of the artifact inventory and building stabilization projects. This included a review of progress reports and proposals for upcoming building preservation. Interviews were conducted with staff at other museums, and in other

Chapter I - Introduction

states. Site observations were conducted. Input was obtained from Montana Tort Claims Division, Building Codes, and Fire Marshall officials. We also reviewed the Commission's Governance Plan, Six Year Business Plan, Strategic Plan, and Preservation and Interpretation Strategy.

A general assessment of business management controls was completed. Interviews were held with site concessionaires, private business owners, and city officials. Cash handling procedures, accounting systems, and inventory controls were not conducted since testing in these areas is conducted during Legislative Audit Division financial-compliance audits of the Montana Historical Society.

Compliance

No compliance concerns were identified during the course of this audit. However, we do believe statutory changes are needed to improve site management. Details on this issue are discussed in Chapters III and IV.

Report Organization

The remainder of this report is organized into three chapters. Chapter II provides general background information on the Commission and site operations. Conclusions and recommendations addressing legislative intent are outlined in Chapter III. Chapter IV discusses proposed management structure changes.

Chapter II - Background

Introduction

Charles and Sue Bovey of Great Falls, Montana, first visited Virginia City, Montana in 1944. They began buying dilapidated town buildings in the mid-1940s. Charles Bovey reconstructed some buildings using vintage materials, and others he stabilized or restored to resemble buildings long disappeared. Bovey also constructed new buildings to accommodate tourists. The Boveys amassed an extensive collection of antiques and Western artifacts on the site. Their operations soon spilled over into Virginia City's sister gold camp, Nevada City which they had also acquired. At that site, endangered buildings were moved in from across the state. In 1961, Virginia City was designated a National Historic Landmark, and in 1976, it was listed in the National Register of Historic Places.

On April 23, 1997, the Montana legislature authorized the purchase of the Bovey properties in Virginia City and Nevada City for \$6.5 million (\$5 million for the artifacts and \$1.5 million for the buildings and land). The purchase was finalized in May 1997, resulting in state ownership of about half the historic structures in Virginia City and all of Nevada City. These acquisitions were purchased with money from the Cultural and Aesthetic Trust Fund (\$3,912,500) and with proceeds from the sale of general obligation bonds (\$3,912,500). Additional moneys were provided for start up and operational costs.

The Montana History Foundation (the Foundation) was instrumental in negotiating purchase of the sites. This private, non-profit foundation exists to promote, assist, and benefit the operations of the Montana Historical Society (the Society). Therefore, when the legislature approved purchase of the sites and the state became the landowner, general oversight responsibilities for the properties and artifacts were assigned to the Society. However, due to resource limitations of the Society, the legislature also statutorily created the Montana Heritage Preservation and Development Commission (the Commission) to specifically direct site operations.

Chapter II - Background

Statutes also require approval for any additional acquisitions of real property be submitted to the Montana Board of Land Commissioners. Consequently, there are three governing bodies for the state-owned portions of Virginia City and Nevada City: the Board of Land Commissioners is responsible for lands purchased; the Historical Society is responsible for artifacts and historical management; and the Commission is responsible for day-to-day operation of the sites.

What Did the State Buy?

When acquired by the state, most of the sites' historic buildings and artifacts were at serious risk due to neglect and decay. In addition, the operations were lacking basic necessities. For example, public restrooms and a central visitor center were not available. Public water and sewer systems were in serious need of upgrading. Purchased artifacts including clothing, furniture, books, etc. were scattered throughout the sites in unsecured, and often unprotected, locations.

The operations include 20 concessions and three liquor licenses. Existing site concessions included motels, live theaters, retail operations, a bakery, restaurants, and saloons. The following picture displays a general map of Virginia City, which includes both state-owned and privately owned sites.

Figure 1
Virginia City Site



Source: Virginia City Chamber of Commerce website.

Prior to purchase of the properties, the Montana Historical Society and the Foundation had an appraisal done to identify buildings and articles for purchase. According to that appraisal the state purchased:

- 160 acres in 42 unconnected parcels
- 248 buildings
- 2 functional hotels, 2 dilapidated hotels
- 10 retail operations
- 2 restaurants
- 2 live theaters
- 6 rental houses
- 1.5 miles of railroad track
- 1 gas powered train engine
- 1 steam engine, 1 diesel engine
- 20 railroad cars
- 1 steam powered tractor
- 1 dredge line
- 3 liquor licenses
- 16 motor vehicles
- 93 horse-drawn or non-motorized vehicles
- 500,000 to 1,000,000 artifacts

Chapter II - Background

Some discrepancies and inconsistencies were noted in the details of this original appraisal. Therefore, specific details on the number of and actual items purchased have never been confirmed through an inventory process.

What Are the Visitor Attractions?

One of the primary visitor experiences is to walk around a historic mining town setting and examine the various buildings and artifacts. Several walking tours and brochures have been developed for the visitor to use. Other visitor attractions include an opportunity to ride a steam train, listen to antique music machines, and purchase historic souvenirs. Two of the more popular attractions include live evening theater productions, which are housed in two of the historic buildings. Rides on a stagecoach and a 1941 fire engine are also available. The following pictures illustrate some of these attractions.

Figure 2
Visitor Attractions



Source: Virginia City Chamber of Commerce website.

Chapter II - Background

What is the Commission?

The Montana Heritage Preservation and Development Commission was established primarily to manage the Virginia City and Nevada City sites. The Commission was attached to the Montana Historical Society for administrative purposes and consists of 14 members. According to statute, the Governor appoints nine members, the President of the Senate appoints one member, and the Speaker of the House appoints one member. The directors of the Montana Historical Society, the Department of Fish, Wildlife, and Parks, and the Department of Commerce are also designated members. Of the members appointed by the Governor:

- (a) One member must have extensive experience in managing facilities that cater to the needs of tourists.
- (b) One member must have experience in community planning.
- (c) One member must have experience in historic preservation.
- (d) Two members must have broad experience in business.
- (e) One member must be a member of the Tourism Advisory Council.
- (f) One member must be a Montana historian; and
- (g) Two members must be from the public at large.

Commission Staff

The Commission employs an executive director who has general responsibility for:

- ▶ Selecting and managing commission staff.
- ▶ Developing recommendations for the purchase of property.
- ▶ Overseeing the management of acquired property.

The Commission prescribes the duties and annual salary of the executive director and other commission staff. There are currently 14 full-time employees and 14 seasonal employees who account for a total of 18.97 FTE. Staff includes a museum technician, preservation specialists, laborers, maintenance staff, and volunteer coordinators. The following table lists the various site positions, the number of FTE in each position, and projected salary costs for those positions in this calendar year.

Chapter II - Background

Table 1
Commission Staff Titles and Projected Salary Costs For CY 2003

Staff Title	Number of FTE	Approximate Salary Ranges for Each Position
Executive Director	1	\$78,000
Business/Marketing Mgr.	1	\$37,000
Volunteer Coordinator	.5	\$11,000
Accounting Tech	1	\$25,000
Operations Assistant	1	\$23,500
Office Assistant	.5	\$8,500
Gate Keepers	.99	\$14,000
Railroad Workers	.99	\$14,000
Visitor Center Workers	.5	\$ 7,000
Gift Store Workers	.5	\$ 7,000
Curators	2	\$30,000-\$31,000
Operations Chief	1	\$33,000
Maintenance Workers	2	\$24,000-30,000
Lead Preservation Specialist	1	\$36,000
Preservation Specialists	3	\$30,000-36,000
Cleaning Person/Laborer	1	\$7,000-8,000
Museum Technician	1	\$24,000
Totals	18.98	

Source: Compiled by the Legislative Audit Division from Commission records.

Stakeholders Are Varied and Wide-Ranging

The number of interested groups and stakeholders involved with Virginia City and Nevada City adds to the complexity of site management. In addition to the Society and Commission, groups who provide input on operations include:

- ▶ Virginia City Town Council and Four Advisory Committees
- ▶ Virginia City Chamber of Commerce
- ▶ Virginia City Preservation Alliance
- ▶ Madison County Commissioners
- ▶ Governor's Office
- ▶ Private concessionaires
- ▶ Montana History Foundation
- ▶ State Historic Preservation Office
- ▶ Bureau of Land Management
- ▶ National Park Service
- ▶ Tourism Advisory Council

Chapter II - Background

Local stakeholder input is critical since operations are part of an incorporated town which is also the county seat. Local funding support also relies upon a resort tax which is partially generated from state tourism operations. Currently the resort tax provides approximately \$60,000 a year to the local government.

Several of the noted groups signed a “Vision Document” delineating areas of agreement among the different stakeholders. In all, the Commission stated it coordinates with 23 groups for the operations of Virginia City and Nevada City.

Funding Sources - Past and Present

In the past six years, funding for the sites has been provided from numerous sources, both public and private. Over \$16 million from these combined sources have been expended to purchase, preserve, operate, and improve the two sites. The following table shows the funding sources for acquisition and operation of Virginia City and Nevada City.

Chapter II - Background

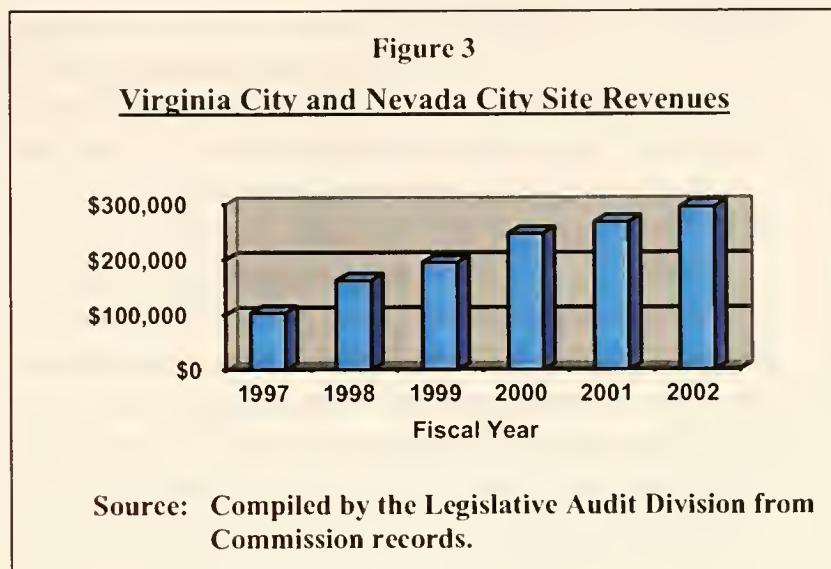
Table 2
Virginia City and Nevada City Funding Sources

Source	Amount
<u>State Sources</u>	
Original State Appropriations	\$9,400,000
Accommodation Tax	2,400,000
Tourism Advisory Council	43,000
State Weed Board	4,000
Gold West Country	10,125
Building Appraisal	10,000
Travel Montana Film Office	45,000
<u>Federal Sources</u>	
National Park Service Grant	1,000,000
Save America's Treasures Grant	300,000
<u>Private Sources</u>	
Cremona Grant	10,000
Locomotive #12	800,000
RR Track Rebuild	682,000
McFarland Curatorial Center	1,180,000
Site Revenues	<u>1,103,399</u>
GRAND TOTAL	\$16,987,524

Source: Compiled by the Legislative Audit Division from Commission records.

Site Revenues

Due to the remote location and long winters of Virginia City and Nevada City, the tourist season for the sites is primarily limited to a three-month window (June through August) with some activity during the Christmas season. Despite these limitations, earned revenues have been increasing over the past six years. Annual revenues are now approximately \$300,000. The following chart illustrates revenues for the past six years.



The majority of revenues come from ticket sales, concessionaires, and the railroad. Ticket sales are primarily revenues from visitation to Nevada City. Concessionaire income is generated through rent/lease agreements and profit sharing. Railroad revenues are generally created through ride ticket sales. Overall, generated revenues equate to approximately one third of operational expenses.

Site Operational Expenses

Overall, operational expenses have fluctuated in the past six years, depending on availability of funding and operational changes. Total expenditures were approximately \$760,000 in FY 1999, \$840,000 in FY 2000 and \$1.2 million for both FY 2001 and FY 2002. Expenditures may continue to fluctuate as funding sources change.

The majority of site expenses are staff salaries and benefits (approximately \$650,000). Salary expenditures for the sites have increased significantly in the past two years due to the infusion of National Park Service funding support. Five FTE were supported through a one-time Parks Service grant. Grant funding is scheduled to end within the next year; therefore FTE levels and associated expenses will be reduced as funding is depleted. Staff salary expenditures in FY 2000 (prior to the grant) were approximately \$300,000.

Chapter II - Background

Commission expenses are tracked separately from operations and are approximately \$200,000 a year. These expenses include Helena staff, related office expenses, and travel costs.

Chapter III - Are Operations Meeting Legislative Intent?

Introduction

After the initial purchase of the sites in 1997, the 55th Legislature established the Montana Heritage Preservation and Development Commission (the Commission) and specific site management directives. Legislative expectations outlined in statutes noted that acquired properties must demonstrate the ability to become economically self-supporting and management activities must be undertaken to encourage the profitable operation of the properties. The legislature also included in statute its intent that no General Fund money be provided for operation and maintenance of the sites. Site profits must be reinvested in the properties and any portion of those profits not used for this purpose shall be deposited in the Cultural and Aesthetic Trust account until the balance of that account reaches \$7,750,000. All these requirements are directed at operating the purchased sites in a business-like manner and ensuring the sites become self-supporting. We examined management actions taken to comply with these requirements. This chapter discusses our findings related to whether operations are meeting legislative intent.

Do the Sites Demonstrate Ability to Become Economically Self-Supporting?

To examine the mandated economic self-sufficiency of these sites, we reviewed revenue and expenditure trends for the past six years. We also discussed the feasibility of increased profitability with officials at similar sites in other states and reviewed professional industry reports/journals. Information from site purchase documents and Commission studies was also utilized. Based on our review, we believe economic self-sufficiency for Virginia City and Nevada City is doubtful for several reasons.

Site Revenues Will Not Fully Fund Operations

As noted in Chapter II, revenues have increased since the state took ownership. Site revenues have averaged \$221,947 (ranging from 22 to 44 percent of site expenditures) for the past four years. However, even with the increases, operational expenditures cannot be fully met with just these revenues. Current operational costs average approximately \$1 million annually. Also, the ability to generate additional increases in revenues appears to be limited. As mentioned in Chapter II, the tourist season is short (three months) due to the

Chapter III - Are Operations Meeting Legislative Intent?

winter climate at Virginia City and Nevada City. Basic tourist amenities such as gas stations, grocery stores, and modern lodging facilities are also not available in either city. Therefore, attracting additional tourist traffic and extending tourist stays at the sites is limited.

Due to these limitations, the Commission must rely upon bed tax support (\$400,000/year) to help fund operations. Although this funding support is currently mandated through fiscal year 2007, it is clear site operations would have to be significantly scaled back without this support. Staffing levels, marketing efforts, and visitor services could not be maintained at their current levels. Current salary expenses are over \$600,000 annually. Generated revenues do not even fund those basic expenses, let alone other operating costs such as advertising, consulting fees, etc. Infrastructure needs, preservation efforts, and ongoing maintenance also could not occur at the projected levels if the additional funding support was no longer in place. Projected repairs and maintenance (\$30,000 per year) and basic interpretation/education (\$30,000 per year) could not be completed.

Legislative Intent May Not Be Realistic for These Sites

When negotiating purchase of the sites, limited information was available on the extent of preservation and stabilization needed, as well as ongoing maintenance needs. In addition, the state had not previously operated sites such as these. Therefore, projected financial needs and operational expenses could not initially be accurately projected.

In general, we found historical sites are not self-supporting. Nationally, state parks and museums typically only cover 30 percent of their operating costs with their revenues. This trend also holds true for the Virginia City and Nevada City sites with a range from 22 to 40 percent.

Interviews with legislators and related parties who were involved in the initial purchase indicated the expectation was the sites would generate revenues to cover operating expenses. As noted earlier,

Chapter III - Are Operations Meeting Legislative Intent?

these sites were in a state of decay and numerous buildings were unstable. According to site officials and officials in other states, there will be continued decay and reduced tourist visitation if efforts are not continued to provide financial support to site operations. Interviews with Fire Marshall and Building Code officials also indicate ongoing upgrades and improvements are needed just to maintain general safety standards.

Conclusion: Sites Are Not Going to be Self-Sufficient

The previous owner (Bovey) did not specifically operate these sites for profit or to ensure accumulations of moneys for long-term stabilization and preservation. To be self-supporting, revenues would have to cover both operating costs as well as building stabilization and artifact preservation costs. Currently the statutes indicate General Fund money will not be provided for the operation and maintenance of the sites. But there are no specific restrictions on continued support from other sources including the bed tax. Although bed tax support is mandated to end in fiscal year 2007, we believe the legislature should re-evaluate their intent in this area. After six years of operation, the legislature now has more information available to make informed decisions.

Conclusion:

- ▶ *The sites and operations are not going to be self-sufficient.*
- ▶ *Long-term financial support will be needed.*

What Type of Business Controls Should be in Place?

Section 22-3-1003(1)(f), MCA, states “management activities must be undertaken to encourage the profitable operation of properties.” To examine this area, we reviewed the types of business-like controls developed by the Commission to direct activities. An effective system of business and management controls includes the following:

- ▶ A system for measuring program activities against goals/objectives.
- ▶ Established administrative processes/policies to direct staff.
- ▶ Comprehensive performance information for program managers.

Chapter III - Are Operations Meeting Legislative Intent?

- ▶ Staffing controls to assure staff accountability and performance.
- ▶ Systems for obtaining feedback and taking corrective action as needed.
- ▶ Effective allocation of resources to assure strong program performance.
- ▶ Established system of fiscal controls.

Commission Has Solicited Various Studies

When the state took over ownership of the sites, they were in a serious state of disrepair and immediate action was needed to provide basic stability. Extensive planning was needed to direct operations toward economic self-sufficiency as statutorily directed. To address these problems, the Commission requested various studies and plans from a wide variety of sources. These studies addressed a wide range of topics including marketing, building prioritization, stewardship, etc. But the major emphasis of these studies focused on site management and directing activities toward increased economic self-sufficiency. We used these studies as criteria or benchmarks for highlighting priority areas/controls for Virginia City and Nevada City operations. In general, these studies recommended developing a system of controls to direct Virginia City and Nevada City operations. The following table highlights the various Commission studies used and which controls were recommended in each.

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Table 3
Controls Recommended by Commission Plans/Studies

Suggested Commission Control	Governance Plan	Six-Year Business Plan	Preservation & Interpretation Plan	Strategic Plan
Establish Curator Performance goals	X		X	X
*Hire Professional Staff		X	X	X
Capital Development Plan	X		X	
*Criteria for Acquisitions			X	X
Hire On-site Manager			X	
Concession Guidelines			X	X
Personnel Management	X	X	X	X
Annual Building Inspection			X	
Monitor Plan Progress	X	X	X	X
Improve Accountability	X	X		X
Improve Asset Control		X	X	X
Operate as Corporation				X
Enhance Visitor Service		X	X	X
Establish Foundation				X

*Controls Implemented by the Commission

Source: Compiled by the Legislative Audit Division from Commission records.

Are There Business Controls in Place to Encourage Profitability?

Overall, we found these suggested controls have not been implemented. This is illustrated in several ways:

- ▶ A full-time on-site manager position has not been created to ensure consistency and accountability in day-to-day operations as recommended in the Commission's Preservation and Interpretation Strategy.
- ▶ Without curator performance goals, only 4,000 artifacts (with 500,000 to 1,000,000 estimated) have been formally entered on the Commission's database in six years. Inventory issues relating to resource support, staff priorities, and site maintenance cannot be resolved. Projections from Commission staff range from 3 to 217 years to complete the inventory.
- ▶ Development of staff controls has been limited. No performance appraisals and limited review of staff productivity illustrate a

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general lack of management emphasis. Personnel management is addressed in all the management plans developed for the Commission.

- ▶ Commission management plans stress visitor stays and satisfaction. However, visitor service enhancement has not been an area of management focus. A visitor satisfaction study completed in 1999 indicated most visitors stay at the sites for less than 30 minutes.
- ▶ Although numerous plans/reports/studies have been completed, no systematic approach for following through on recommendations or study areas has been developed. Monitoring plan progress was suggested in all plans noted in Table 3.
- ▶ Funding estimates presented to Montana's congressional delegation do not correspond with planned priorities. The Commission is estimating approximately \$22 million is needed to meet capital needs. The following table outlines their request.

Table 4
Commission-Projected Capital Needs
(Virginia and Nevada Cities)

CAPITAL NEEDS	PROJECTED COSTS
\$50,000/building x 248 buildings	\$ 12,400,000
20 railroad cars x \$150,000/car	3,000,000
200,000 artifacts x \$20/artifact	4,000,000
Public restrooms	120,000
Sewer hookups	220,000
Maintenance buildings	480,000
Wagon barn	65,000
Rewire outdated electrical service	750,000
Visitor center	<u>1,000,000</u>
TOTAL	\$ 22,035,000

Source: Heritage Commission Records.

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Inconsistencies between funding requests and planned priorities include:

- ✓ Rehabilitating railroad cars when there is only 1.5 miles of track with no planned track expansions.
- ✓ Projecting \$50,000 per building for 248 buildings rather than focusing on the 12 buildings designated as historic priorities. And there is no completed inventory of building needs.
- ✓ A maintenance building of \$480,000 requested with no formally developed maintenance plan.
- Concessionaire management is still evolving and it is unclear who has direct responsibility in this area. Interviews with concessionaires noted frustration with the lack of state management and inconsistencies with operations. Concession maintenance is assigned to maintenance staff, and contract renewal duties are addressed by either the executive director, the business/marketing manager, or contracted legal staff. No formal system is in place to track maintenance requests, concession complaints, or contract renewal issues. Without an on-site manager, concessionaires are unclear whom to approach with problems or questions on a daily basis.
- Staffing allocations have not been formalized or examined to assure resources are devoted to key areas. All plans/studies have discussions and recommendations directed at developing on-site management, interpretative staff, and fundraising/development staff.

Conclusion: Business Controls Need To Be Implemented

As one commissioner suggested, “the project has matured and it is time for the management system to mature with it.” In general, interviews with stakeholders and review of Commission minutes suggested limitations with current site management. A 14-member commission that meets four times a year has difficulty providing the hands-on attention sites as dynamic and complex as these require. Several steps are needed to assure compliance with legislative intent as well as to improve/strengthen Virginia City and Nevada City business controls. These steps are discussed below.

Develop Staffing Controls

The Commission has not developed or initiated staffing controls to manage and direct site staff. Currently, the executive director generally visits the sites once a week to conduct staff meetings and

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resolve site issues. At best, this creates a limited management approach for on-site staff. Without comprehensive controls in place, it is difficult to monitor progress on designated priorities as well as ensure staff accountability. Staff accountability questions were raised in several areas.

- ▶ Review of preservation work reports indicate preservation specialists are regularly “loaned” to maintenance projects. It is unclear whether this “loaning” is appropriate in light of the considerable workload in both areas.
- ▶ Currently there are three maintenance staff as well as a laborer and a cleaning person projected for the calendar year 2003 budget. However, concession owners noted maintenance support is not provided on a regular basis or in a timely manner.
- ▶ Preservation staff are “contracting out” with other states (went to Alaska in August 2002) to complete preservation projects despite a growing list of Virginia City workload priorities.
- ▶ Lack of visitor services (restrooms, signs, tours, and materials) and interpretative staff were issues constantly raised during audit interviews with stakeholders as well as in the various studies completed for the Commission.
- ▶ Although the Commission’s Preservation and Interpretation Strategy Plan outlines several strategies/priorities for staff allocations, we found actual staff allocations do not address those identified areas. Despite interviews with concessionaires, Commission members, and on-site staff who all promote the development of an on-site manager position, changes have not been made to address this area in the six years of operation. Other recommended staff positions such as interpretation specialists and development positions have also not been developed.
- ▶ We reviewed job duties by examining job descriptions, observing staff activities, and reviewing staff reports. We found staff duties and responsibilities are not always reflected in job descriptions, nor do they correspond with critical workload areas. For example, although two curators are employed, only one of those staff is actually performing curatorial responsibilities, a critical workload area according to Commission documents. Actual job duties performed by staff in the other curator position are more

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closely related to visitor tours, graphic art, and railroad operations.

Summary

Recommendations for developing and strengthening personnel management were suggested in several Commission studies. We believe steps should be taken to reallocate staff to more directly address the recommendations/strategies outlined in the site strategic business plan and address priority areas. In addition, strong business controls dictate formal methods for directing and managing staff. We believe steps should be taken to develop these controls for the Virginia City and Nevada City sites.

Recommendation #1

We recommend the Commission develop a system of staffing controls and allocate staff to assure priority workload areas are addressed.

Consolidate Property Ownership and Management

One of the frustrating concerns voiced by stakeholders is the confusion associated with the current management structure of having two separate administering entities. The Montana Historical Society provides direct ownership responsibilities for the state-owned artifacts and buildings, while the Commission is responsible for managing those properties and artifacts. This has created overlaps and conflicts resulting in ongoing legal questions and impacting the ability to make site development/management decisions. For example, the Commission cannot sell items or loan artifacts without approval from the Society's Board of Trustees. Due to this confusion and controversy over artifact control, eighteen legal opinions have been drafted on various topics such as requirements for land exchanges, ownership of artifacts not specifically listed on inventories, future acquisitions, etc. Although the legislature directed management of the sites be conducted in a business-like manner, this dual management structure makes it difficult to consistently administer. To assure management has flexibility to maximize economic returns and have direct oversight of resources, ownership and management responsibilities should be consolidated into one administering/managing entity.

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Recommendation #2

We recommend the legislature transfer ownership and management of all artifacts and real property to one managing entity.

Prioritize Artifact Management

Based on stakeholder interviews, another frustrating aspect of site management has been completion of an accurate and updated artifact inventory. Due to the critical condition of some of the buildings, preservation and stabilization for buildings was the first priority for the Commission. As a result, limited resources have been available for completing and updating the inventory of site artifacts. The Commission reports only 4,000 of the approximate 500,000 to 1,000,000 artifacts have actually been inventoried and catalogued on their current curatorial system. The State of Montana still does not know what is owned at the sites. And as noted in the previous section, there are ongoing questions about who has authority to make decisions relating to artifact control. Examples of unresolved artifact issues include:

- ▶ Some artifacts may not be historical to the Virginia City or Nevada City sites or are duplicates of certain items already owned. These types of artifacts could be considered for “de-accession” and sale to generate revenue.
- ▶ Since railroad operations are not historic to these sites, should the Commission rehabilitate railroad cars or should those artifacts be sold to generate revenues?
- ▶ Should the Commission be purchasing additional artifacts? The Commission invested \$10,000 in a collection of household items for Frontier House tours. This purchase included 3,000 items of household furnishings, clothing, tools, cooking utensils, personal care items, and farming equipment. Some items are reproductions and others are authentic antiques. How these items fit into the long-term picture of artifact management are questions that have not been answered or planned for.

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- ▶ The current artifact inventory process has incorporated artifact preservation and stabilization measures. Although these measures are critical steps that ultimately need to be taken, completing those steps now has slowed the inventory process.
- ▶ Minimal security at the sites has created a general concern over artifact management. This concern is compounded by private property in-holdings within the state sites and the fact that not all artifacts have been identified.
- ▶ Projected funding support has not materialized and additional funding strategies have not been developed.

Until a more comprehensive inventory is completed, informed decisions on artifact management cannot be made. It has been suggested by various professionals and legislators that a completed inventory be a site management priority. In addition, recommendations and strategies for artifact management have been outlined in the various management plans completed for the Commission.

Recommendation #3

We recommend the Commission create an established, foreseeable timeline and methods for completing the artifact inventory.

Chapter IV - Management Structure Changes Would Improve Site Operations

Introduction

During the course of this audit, several options were raised by stakeholders regarding changes needed in the management structure for the sites. The most extreme option was a suggestion to auction the sites off to eliminate the need for future funding support. Overall, we found this does not appear to be a viable or popular option. In reviewing documentation relating to the purchase of these sites, we found pages and pages of supporters who provided a \$20 or a \$50 check to ensure these sites were preserved. Interviews with staff at the National Historic Trust, private foundations, auction companies and other state parks directors also indicated these sites are important to Montana's cultural and historical preservation. Therefore, we do not believe the entire site was purchased just for specific purposes such as to make sure the barrel-vault was available for the Capitol restoration (as suggested in some interviews) or just to turn around and sell the sites off later. Other suggested options for improving the management structure were evaluated and are discussed below.

What Are Some Management Options?

Montana Heritage Preservation and Development Commission (Commission) members and other involved stakeholders outlined four options for providing a future approach to site management. Some commissioners believe the Montana Historical Society (Society) should be removed from the current management structure and the Commission should assume all responsibilities. Another suggestion was made to dissolve the Commission. Subsequently, the Society would assume all management responsibilities related to Virginia City and Nevada City. A third suggestion was to move site management to the Department of Commerce to provide a tie with economic development and tourism. A fourth option suggested is management by the Department of Fish, Wildlife, and Parks (FWP) through the Parks Division.

How Feasible are the Options?

Although we found the Commission was critical for providing input on the initial planning and stabilization of the sites, our work suggests its structure is not conducive to effective onsite, day-to-day

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oversight. The combined expertise provided by the 14-member Commission has worked well for obtaining input on site assessment and planning. However, this type of structure has limitations when providing site management. We specifically examined each of the following options to determine how existing controls compared to suggested improvements for site management.

Option #1 – The Commission

The Commission does not have the resources needed to operate independently. General operations support such as accounting/payroll, information systems, budget management, and administrative systems are all currently provided through the Society. The Commission does not appear to be in a financial position now or in the immediate future to contract or hire their own support in these critical areas.

Option #2 – The Historical Society

As one of the smaller state agencies, Society management indicated they do not currently have the systems and staff to perform on-site management. Resources are not available for ongoing information systems support, legal input, and land management. Due to its current staffing allocation and budget constraints, it does not appear the Society is equipped to adopt a more direct role in managing these sites.

Option #3 – Department of Commerce

The Department of Commerce has many of the same resource limitations as the Society. Department management indicated management systems and experience for operating at remote sites and maintaining capital projects are not available. In addition, this agency has no experience with historic preservation projects. Marketing and tourism services are their primary management focus.

Option #4 – Parks Division

The general consensus of professionals in other states and local stakeholders is the sites might be better served under a more formalized management system. Interviews with parks managers in other states recommended the site be managed as a state park. For example, the site manager of Columbia State Park in California has visited Virginia City and Nevada City and is familiar with its

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operations. He strongly suggested incorporating this site into the FWP, Parks Division system to take advantage of controls and site management as well as the opportunity to pool resources with similar operations.

Which Option Provides More Business-Like Controls?

The various Commission plans and studies identified areas where business/management controls are needed to strengthen Virginia City and Nevada City operations. These areas include experience in land and property management, developing administrative systems for performing basic business tasks such as payroll/tax reporting, procedures and structure for remote supervision of staff, information systems for tracking and reporting activities, legal support, experience and procedures for visitor services, and formal maintenance capabilities. In reviewing the suggested management options, we highlighted those options which provide an existing framework of these controls. The following table highlights areas where these controls exist in the suggested management options.

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Table 5
Existing Business/Management Controls
(suggested management options)

Control	Heritage Commission	Historical Society	Department of Commerce	Parks Division (FWP)
Property Management	X			X
Administrative Systems	(thru other agency)	X	X	X
Remote Staff Supervision				X
Information Systems	(thru other agency)	(thru other agency)	X	X
Legal Support	(thru other agency)	(thru other agency)	X	X
Visitor Services		X		X
Maintenance Support	X			X
Technical Historic Support	(thru other agency)	X		X

Source: Compiled by the Legislative Audit Division.

Based on this review, we believe the Parks Division has more controls in place and experience to support this type of operation than the other options.

How Would Site Management Be Strengthened by Transferring to the Parks Division?

In a previous performance audit of the Parks Division (report #00P-13), we evaluated the division's operational controls. Overall, we concluded the controls within the division result in strong fiscal compliance, staff management, and program communication. Within Montana, the Parks Division has experience in managing diverse historic and cultural sites such as Bannack and Chief Plenty Coups State Parks. Although these sites are not as complex and diverse as Virginia City and Nevada City, the division has developed a methodology for site management to assure a level of accountability and consistency statewide. In addition, the Parks Division has experience in concessionaire management and resources available

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for managing sites not available in a small agency such as the Society. Supportive services such as legal, information systems, construction/design, and land agents are all available for state parks use. The suggested controls needed for Virginia City and Nevada City are currently utilized at state park operations. We believe there are specific areas at Virginia City and Nevada City where the Parks Division could provide strong oversight and management.

Historic Collections Oversight

Although consolidation and transfer of property and artifact ownership is critical from a management efficiency point of view, the Parks Division has limited access to or expertise in the area of historic collections. Concerns and questions relating to artifact management were specifically raised. Sections 22-3-423 and 22-3-424, MCA, assign duties of the state's historic preservation officer and state agencies, including FWP, in relation to preservation of historical properties. Steps and processes are outlined in these statutes to ensure the protection and preservation of those properties for any new management structure.

Concession Management

As mentioned in Chapter II, purchase of these two sites included various concession operations. These concession operations currently include a bakery, restaurants, a saloon, and lodging businesses. Concession businesses are key to the visitor experience at the sites. Visitor dissatisfaction in this area could have direct economic impacts to both the state and city operations as well as the private enterprises in Virginia City. We believe changes taken in strengthening on-site management and formalizing business controls will help improve the relationship with concessionaires and nurture their role within the sites. The Parks Division has experience and controls in place to address this area.

Reeder's Alley

In line with its current statutory responsibilities, the Montana Board of Land Commissioners has accepted ownership of one other property of significant value: Reeder's Alley in Helena. Management responsibilities have been assigned to the Commission. These responsibilities can be re-assigned. As with the other properties of the Commission, the legislature could consider a

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transfer to the Parks Division to assure a clear line of authority for site management decisions. Interviews with Society and Parks Division management staff indicated there are various options for managing these sites.

Conclusion: Management Structure Could Be Strengthened

We believe a transfer of Virginia City and Nevada City management to the Parks Division warrants legislative consideration for several reasons including:

- ▶ No other government operation appears to have a site management system that is as comprehensive and compatible.
- ▶ Stakeholders are frustrated with the current lack of structure/business approach.
- ▶ Similar operations across the nation are operated as state parks.
- ▶ Operations will likely become more effective in addressing planned development and preservation goals.

A transfer in management responsibilities would clarify the current dual management roles and streamline state governance of these historical sites. Management staff within the FWP and the Society has indicated a willingness to support this transfer and change in management structure.

Recommendation #4

We recommend the legislature take actions necessary to transfer management of Virginia City and Nevada City historic sites to the Parks Division within the Department of Fish, Wildlife and Parks.

Future Role of the Commission

Based on our interpretation of legislative intent, the general purpose of the Commission is to provide a statewide tourism and business perspective to Virginia City and Nevada City site operations. In this capacity the Commission has participated in and overseen important program development and planning activities. Although limited in their ability to provide direct onsite management, we believe there is

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a continued need to provide this type of input in the future. Specific areas of Commission expertise will be needed as ongoing changes and development at the sites occur.

Commission Role Should be Changed

We believe the future role of the Commission should change to adopt a structure similar to an advisory council or a private foundation.

The Commission would not be responsible for day-to-day oversight or staff supervision but would focus on general site development and financial support. Current statutes could be amended to designate powers and duties of the Commission similar to those for an advisory council (section 2-15-122, MCA) or a foundation. These powers could include the following:

- ▶ Establish fundraising goals and strategies.
- ▶ Establish accounts for site support.
- ▶ Establish priorities and financial principles for trust management.
- ▶ Recommend collection/artifact priorities.
- ▶ Report to the Governor and legislature biennially with suggestions and recommendations for improvement of the sites and its operations.

Consider Changing Commission Membership

In addition to changing the Commission's role and responsibilities, it may also be necessary to change the current make-up of the Commission.

Under current statutes, section 23-3-1002(2), MCA, the Commission must have representation in key areas including:

- ▶ Managing facilities that cater to the needs of tourists.
- ▶ Community planning.
- ▶ Historic preservation and interpretation.
- ▶ Broad experience in business.
- ▶ A member of the tourism advisory council.
- ▶ A Montana historian.

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Although we believe this type of advisory expertise will still be needed in the future, we also believe changes should be considered. For example, it may no longer be necessary to have representation from all the currently designated state agencies which include Department of Commerce, the Society, and FWP. With onsite management responsibilities assigned within one state agency, some representatives may no longer be needed. The legislature may want to consider changing the makeup of the Commission to incorporate other critical expertise such as a local business representative, a concession representative, and/or local legislative representatives.

Summary

Overall, we believe the duties of the Commission should be changed. The members should act as consultants to the Parks Division in managing these sites. Statutes should be amended to clarify its role as an advisory resource attached to the Department of Fish, Wildlife, and Parks. Other more specific site management responsibilities currently outlined in the law would no longer be needed.

Recommendation #5

We recommend the legislature take action to attach the Montana Heritage Preservation and Development Commission to the Department of Fish, Wildlife, and Parks and use the professional expertise of the members in an advisory capacity.

Agency Responses



MONTANA HISTORICAL SOCIETY

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February 6, 2003

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LEGISLATIVE AUDIT DIV.

Angie Grove
Performance Audit Manager
Legislative Audit Division
P. O. Box 201705
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Dear Ms. Grove:

Thank you for the opportunity to review your final draft of the performance audit relating to the Montana Heritage Commission and the properties it manages, in particular, the state-owned portions of Virginia and Nevada Cities. I believe the report covers the primary issues needing attention. There are no easy solutions, and the alternatives you considered, including your preferred alternative, do not, of course, address the huge financial need and the state's significant liability at these sites. However, the recommendations, if implemented, should lead to more efficient management and better long-term care of these important historic resources with the resources available. It also takes extensive collaboration between state, federal and private entities to manage a site like this, and no one single agency can do it alone in today's economic climate.

The basic conclusions of your report seem to be:

1. There needs to be a single jurisdiction and oversight to efficiently make decisions and take management action as needed.
2. Virginia and Nevada City properties will never be economically self-sufficient, and expectations will have to be altered accordingly.
3. State Parks is currently best equipped among state agencies, including the Commerce Department, to manage a historic site like Virginia and Nevada City, unless adequate FTE and funds are provided to the Society.
4. The Montana Historical Society's support staff and budget are too small to handle oversight of Virginia and Nevada Cities.
5. The current structure is not conducive to day-to-day site management and operations, but has provided a strategic framework and has made some initial strides toward improvement.

I generally agree with this independent assessment. The management of Virginia and Nevada City seems to have reached a plateau, and some sort of realignment would be positive.

The Montana Historical Society has provided the Heritage Commission with not only general operations support (e.g. budgeting/accounting, personnel/payroll, etc.), but also considerable expert technical input in the areas of historic preservation, historic architecture, historic interpretation, curation, artifact care, archival management, educational programming, etc. Some of this expertise does not exist anywhere else in state government. This expertise could certainly be made available to State Parks for Virginia and Nevada Cities through the existing M.O.U. between the agencies. If the input was extensive, compensation for services would be necessary.

The ability for FWP to provide administrative and management/maintenance support clearly is far beyond our capability. My own tenure at FWP as well as MHS bears this out, especially in areas of accounting and finances, personnel, information technology, legal, human resources, etc. In addition, FWP has regional offices in seven cities throughout Montana with other expertise such as law enforcement, maintenance and interpretation. However, I feel that controls must be put in place, if the MHC is moved to FWP, to prevent negative impacts to the balance of the State Parks system.

Despite the management designation, MHS always has a role with SHPO and state-owned property if construction, alteration, demolition or sale occurs. The Society is interested in preserving the qualities and resources of Virginia and Nevada Cities that were the basis of their listing(s) in the National Register of Historic Places. (Individual buildings in Nevada City are listed in the Register, and the Register status of the entire town continues to be evaluated.) We also feel that care of artifacts, including loans and de-accession of artifacts, should follow standard professional museum and state policy. Realistically, few changes in artifact management can occur without an inventory completion. The Society has urged the Heritage Commission to devote more resources to this effort.

We have concerns about how any deaccession of artifacts is handled. The sale of these items, even if surplus or beyond the project mission, is fraught with potential pitfalls and hazards which could disenfranchise those who so ardently sought to preserve these places. A mixed signal to donors can alter the willingness of donors to continue to contribute to the Society or the Commission. The professional accreditation of the Society, which is based partially on the professional handling of collections, could be in jeopardy if deaccession is not carefully accomplished, even with legal detachment. Most of our publics do not differentiate between the Historical Society and the Heritage Commission.

I feel the “mandate” that seems to drive the MHC to make money, no matter what the long-term implications, clouds the decision process and encourages short-term gains without regard to long-term consequences. If the unattainable self-sufficiency mandate is removed, this will help. This does not mean that entrepreneurial work or efficient, business-like practices should cease. It simply means sometimes the greater good and intrinsic historic values should override making a “quick buck” and irrevocable decisions should not be made on the basis of funding shortages alone.

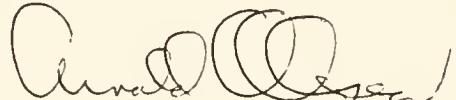
Angie Grove
February 6, 2003
Page 3

We preserve sites like these for the common good, to improve our quality of life and to remember and learn from our past. The economic gain to Montana is substantial, though indirect, from tourism and those who seek the authentic American West which has been lost in so many other places. I believe the public support for preserving these sites was considerable. We must be responsive to this public desire.

I believe there is a role for an attached Commission, but advisory and/or fund-raising would seem best wherever its destination.

I hope some of these comments are helpful. You seem to be on the right track. We remain willing to cooperate with any changes that improve the management, care, interpretation and preservation of these important historic sites.

Sincerely,



Arnold Olsen
Director

AO:rha



Montana Fish, Wildlife & Parks

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FEB 10 2003

LEGISLATIVE AUDIT DI

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February 6, 2003

Jim Pellegrini
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Helena, MT 59620-1705

Dear Mr. Pellegrini:

Thank you for the opportunity to review and comment on the draft performance audit report on Virginia City (VC) and Nevada City (NC) and the Montana Heritage Commission. Fish, Wildlife & Parks (FWP) appreciates this comprehensive look at those operations especially knowing the amount of time and energy an audit like this takes. FWP has reviewed the draft report and offer the comments listed below.

Economic Self-Sufficiency

FWP concurs with your assessment that VC/NC cannot be run in a manner to make them self-sufficient. Only 2 of the existing 42 state parks have incomes that match their annual operating budgets, and those are unique situations (Lewis and Clark Caverns and the Smith River); however, those incomes do not cover land costs, capital improvements, major maintenance or renovation costs. Additionally, within the State Parks System the sites that require the most infrastructure maintenance, building stabilization financial support, and those that have the least potential for income generation are the historic sites.

Current Site Management:

Based on FWP's experience, FWP concurs with your assessment of the evolution of management needs at parks. Examples of this within the State Park System are Makoshika, Bannack and Ulm Pishkun; as these parks changed through time, saw increased visitation and different site needs, management needed to change to address these changing needs.

FWP also concurs with your assessment of the needs of on-site management presence. While most state parks are managed from the 'remote location' of an FWP Regional Office, FWP's more complex parks require on-site, daily management. Only with this on-site management can visitor needs, personnel supervision and other local issues be adequately addressed.

Management Options:

In your discussion of the services that are available in a larger agency like FWP, it is only fair to point out that those services, such as legal council, human resources assistance, information technology staff and so forth, are afforded through an overhead assessment on all budgeted expenditures. In the case of FWP, state funds are assessed an overhead rate of about 11% and federal funds are assessed around 20% overhead charges. These overhead rates, however, do not cover the direct cost expenses of administrative oversight of the various park programs within the Parks Division; at present those costs are absorbed by the general state parks funding sources. If VC/NC were to come under the Parks Division, it would only be fair to the other programs within the division and to other state parks to establish some type of administrative overhead to address daily administration and supervision costs.

Special Revenue Account: The report does discuss the need for continued long term funding. If VC/NC were to become part of the State Parks System, FWP feels it is necessary to establish a financial ‘firewall’ between the existing 42 state parks and VC/NC. This firewall could be designed legislatively to protect both state parks funding as well as funding for VC/NC. As you are undoubtedly aware, the State Parks System is currently struggling financially. By FY 2005 without substantial reductions in service, closing parks or an infusion of new revenues, parks cash balances will be negative. This is without any planned capital construction, capital improvements or major maintenance using the main four parks funding sources. At this time and for the foreseeable future the parks system cannot sustain any additional financial or management responsibilities that are not self-supporting.

Property Ownership

FWP concurs with the 'all or none' concept that seems to be suggested relating to asset ownership and management. Management of these properties will be difficult enough without complicating the matter with split ownerships and responsibilities of either buildings, or artifacts, or other assets such as the liquor licenses.

Collections Expertise

FWP currently does have an MOU with the MHS to share resources and expertise as may be possible. FWP assumes VC/NC issues could utilize that MOU.

FWP understands a concern has been raised about the disposal of artifacts by an entity that is not the state museum if management of VC/NC were to be transferred to FWP. To help with that concern, FWP suggests that a statute or administrative rule could be designed to require that no assets be disposed of without due consideration of a review board comprised of the MHS Director, the FWP Director, SHPO and a citizen member or two. Obviously, someone would have to be the final authority for the decision, but this 'due process' may help with some concerns. Judging by the public reaction recently when FWP broached the subject of land disposal, there is little doubt that any disposal at VC/NC will need to be a very public process. The concept discussed below of how to deal with the proceeds of a sale could also come into play if revenues were received from the disposal of artifacts.

FWP Commission Expansion

If VC/NC were to come under the auspices of FWP, it is believed that adequate policy direction and oversight exists with the FWP Commission without the continuation of the Heritage Commission. FWP concurs with the audit recommendation to reshape the Heritage Commission as an advisory board and/or as a financial development board. FWP feels one commission governing this agency is adequate. While FWP does have an associated foundation for private fund raising, depending on the desires of the individuals involved, fund raising for VC/NC could either be through the FWP Foundation or through a new and separate associated foundation, as is the case with Travelers' Rest State Park.

FWP currently has several different models that could have merit on the VC/NC situation. FWP has 'Park Friends' groups that support parks either by providing special event support, money, volunteers or management planning advice. There are other groups solely dedicated to providing large-scale, long-term financial support of specific parks or projects. All of these groups operate independent of the agency, but at the same time and for the most part in concert with the department's long-term goals and mission as well as within our current commission structure. It would be very difficult to support VC/NC coming to FWP if it came with an independent commission.

Reeder's Alley

While FWP understands the concept of consolidating all of the Heritage Commission land holdings in one location or with one agency that has the capability to manage those holdings, Reeder's Alley remains a bit of an anomaly. Reeder's Alley, while it does have historic values, does not seem to have the statewide significance to be represented in a state park. Perhaps a local historical society would be a better home for it, or perhaps a historic conservation easement, or historic covenants could be placed on the property and then the property sold with the sale receipts going into a trust to support other heritage properties. From a brief look at the situation, if that property did come to FWP, the later option discussed above seems appropriate. Legislative authority would need to be clearly granted to allow such a transaction. FWP thinks it would be important that that legislative authority establish a separate and distinct heritage trust account from the existing FWP Land Trust account that receives the proceeds of the sale or lease of current FWP properties.

In Summary

There would be some merits to Virginia and Nevada cities being operated as part of the State Parks System. However, before FWP would support such a change in management the following items would have to be guaranteed.

1. A financial firewall in place to ensure that VC/NC operated in a financially independent manner and that additional demands on FWP administrative services would be compensated.
2. All assets, including buildings, grounds, artifacts and liquor licenses would have to come as a package.
3. The site would be managed under the auspices of the FWP Commission, FWP and the Parks Division without an additional commission.

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4. FWP has the capability to manage staffing locations and levels as deemed necessary, as with any other state park operation.
5. FWP has the authority to dispose of properties or buildings that do not meet the needs of the state or the State Parks System.
6. The temporary accommodations tax allocation to VC/NC should be made permanent.

Thank you again for the opportunity to review your draft.

Sincerely,



M. Jeff Hagener
Director

c: Parks Division

FEB 10 2003

EXECUTIVE SUMMARY

LEGISLATIVE AUDIT DIV.

The Montana Heritage Commission supports three of the five recommendations prepared by the Legislative Audit Division.

Recommendation #1: We recommend the Commission develop a system of staffing controls and allocate staff to assure priority workload areas are addressed.

RESPONSE: The Commission concurs. All of the various plans previously developed by the Commission will be reviewed, as well as current position descriptions, and actual staff work assignments. Actions will be taken to re-allocate staff resources, update position descriptions and follow-up by completing performance evaluations of all staff. A site manager will be hired in 2003. Target date for completion of these activities is December 1, 2003.

Recommendation #2: We recommend the legislature transfer ownership and management of all artifacts and real property to one managing entity.

RESPONSE: The Commission concurs. Senator Dale Mahlum has introduced Senate Bill 101 at the request of the Commission. SB 101 places the title to all real and personal property in the name of the State of Montana under the management authority of the Montana Heritage Commission.

Recommendation #3: We recommend the Commission create an established, foreseeable timeline and methods for completing the artifact inventory.

RESPONSE: The Commission concurs. The Commission recognizes the importance of a complete understanding of the nature and numbers of the personal property now under the ownership of the State of Montana. We have an artifact inventory that was completed at purchase. Although not perfect, this document is our working copy. Currently, curation of personal property is proceeding at an average of more than 100 items per month, and includes a detailed inventory for each item. Initial indications in 1997 were that the State of Montana acquired between 200,000 – 500,000 items. In 2001 we sought and obtained a grant to assess the collection and set priorities for curation. Based on information obtained in the assessment, it is estimated that there are over 1,000,000 items in the collection. A complete and detailed inventory will take a number of years to complete. The Commission will establish a timeline and methodology for completing the artifact inventory. The timeline and methodology will be completed by October 30, 2003.

Recommendation #4: We recommend the legislature take actions necessary to transfer management of Virginia City and Nevada City historic sites to the Parks Division within the Department of Fish, Wildlife and Parks. Recommendation #5: We recommend the legislature take action to attach the Heritage Preservation and Development Commission to the Department of Fish, Wildlife and Parks and continue to use the professional expertise of the members in an advisory capacity.

RESPONSE: The Commission strongly disagrees with both recommendations. The Commission recognizes the areas of management controls and allocation of staff resources that need to be addressed and is prepared to take appropriate action to fulfill its obligation in these areas.

HISTORY AND A DETAILED RESPONSE FOLLOWS.

TO: The Legislative Audit Committee
FROM: The Montana Heritage Commission
SUBJECT: A Response to the 2003 Performance Audit
DATE: 10th February 2003

Beginning in the early 1990's, Ford Bovey began public discussions about selling the fabulous collection of buildings and artifacts amassed over 40 years by his parents, Senator Charles Bovey and Sue Ford Bovey. Located in Virginia City and Nevada City, the collection of Western Americana is the largest outside of the Smithsonian Institution. The Legislature became aware of these discussions and Montanans across the state offered their support to the Legislature to keep these treasures in Montana. In addition, national interest and support in preserving the sites was solidified when the National Trust for Historic Preservation listed the towns in their top-ten list of endangered places. In 1997 the 55th Legislature appropriated \$6.5 million to acquire nearly 250 old buildings, 42 parcels of land, and upwards of 1,000,000 artifacts from Ford Bovey. Additional funds were set aside to begin addressing the needs of the sites. With this purchase the Legislature acquired much of the lore and legend surrounding the early days of Montana.

The Legislature recognized the complexity of this new program and created a new entity to oversee the sites. The Montana Heritage Preservation and Development Commission (commonly referred to as the Montana Heritage Commission) was created to oversee the project, engage the public, coordinate the interest groups, and manage the assets.

Of notable significance was the legislative direction to make this a public/private partnership. The legislative intent was to wean the sites from state support over time. The Legislature recognized that this would take a number of years, and provided decreasing support (in real dollars) for a fixed period of time. The Commission has moved in this direction, and has made considerable progress. For instance, revenues have increased on average more than 21% each year since the Commission began managing the properties.

After five years of operation the Montana Heritage Commission has undergone a Performance Audit conducted by the Legislative Audit Division. The Audit contains two conclusions and five recommendations. The Commission agrees with three of the five recommendations in the report. Both the conclusions and the recommendations are addressed below.

The Commission believes that it is appropriate and important to note that during the preparation of this response the Commission was guided by what it believes is best for long-term protection of the properties in Virginia City and Nevada City.

Conclusions: The sites and operations are not going to be self-sufficient. Long Term financial support will be needed.

The 55th Legislature created the Commission and directed that the sites be managed "in a manner that protects the properties and encourages economic independence." The Commission strives to meet this goal and has seen notable success. The Commission has been entrepreneurial and taken the businesses (concessionaires) to a level of self-

sustainability. While a strong argument has been made in the audit that there is no hope of economic independence, the Commission would like the opportunity to continue on the current course of action mandated by the Legislature. Under the current fiscal situation state government has many pressing priorities. The Commission has made considerable progress over the years and has not asked for additional funds from the State of Montana during this Session. The Commission respectfully requests that the wishes of the 55th Legislature be followed to allow the Commission to continue to seek economic independence for the Virginia City project, including seeking private donations.

Recommendation #1: We recommend the Commission develop a system of staffing controls and allocate staff to assure priority workload areas are addressed.

RESPONSE: The Commission concurs. All of the various plans previously developed by the Commission will be reviewed, as well as current position descriptions, and actual staff work assignments. Actions will be taken to re-allocate staff resources, update position descriptions and follow-up by completing performance evaluations of all staff. A site manager will be hired in 2003. Target date for completion of these activities is December 1, 2003.

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Recommendation #5: We recommend the legislature take action to attach the Heritage Preservation and Development Commission to the Department of Fish, Wildlife and

Parks and continue to use the professional expertise of the members in an advisory capacity.

Both recommendations are similar and a combined response follows.

RESPONSE: The Commission strongly disagrees with both recommendations. The Commission recognizes the areas of management controls and allocation of staff resources that need to be addressed and is prepared to take appropriate action in these areas.

The audit has blurred the line between the responsibilities of the Commission in managing historic properties and artifacts, and receiving the necessary “administrative support” necessary for any government agency. It is neither necessary, nor appropriate, to transfer full responsibility for management of these state resources to the Department of Fish, Wildlife, and Parks to fulfill the dual responsibility of site management and administrative support as suggested by the recommendation in this audit.

Senator Dale Mahlum has introduced Senate Bill 232 at the request of the Commission. SB 232 will attach the Commission to the Department of Commerce for “administrative purposes only”. The Department of Commerce has the necessary staff to provide all the administrative support necessary for an attached agency such as the Commission. The support includes information technology, human resources, budgeting, contracting, accounting and legal services. Site management will be accomplished by the Commission through allocation of existing staff resources or through contracting as necessary.

Given the nature of these recommendations, a brief historical review of FWP’s relationship with Virginia City and the current financial situation of State Parks is appropriate.

1. **The Virginia City project was offered to FWP in 1997 but was rejected by FWP because it was seen as a potential financial drain on the park system.**
2. **The 2002 State Park Futures Committee considered but rejected the inclusion of the Virginia City project into the park system. Five Legislators served on this Committee. The Futures Committee recognized in their final report that the existing arrangement with the Heritage Commission seems to be working.**
3. **The State Park Futures Committee Report lists 38.40 additional FTE, an annual budget increase of \$4,825,000, and \$36 million in capital needs for the existing state park system, without the addition of the Virginia City project.**
4. **The Director of FWP is statutorily assigned to the Commission.**

The Commission believes that the transfer of the project to the State Parks Division and relegate the Commission to an advisory role would not be in the best interest of Virginia City for the following reasons.

1. The 55th Legislature established the Commission for a number of reasons, but the main focus was to develop a new approach to state government. The Legislature wanted to combine history, the private sector, and government into a new entity and test the ability of the resources to be self-sustaining. The Commission is building an entrepreneurial culture as a basis for management. This entrepreneurial culture is rare in state government. In addition, the Legislature created the Commission because of the complexity of the project and the need for a high profile and focused oversight. The responsibilities of the Commission are unique among state agencies. There is no other entity within state government that is positioned to be able to specifically meet the needs to accomplish the mission that the Commission must meet. The sole responsibility of the Commission is to manage historical properties that show the ability to become self-sufficient. The members of the Commission have been, and will continue to be, selected based on the expertise they bring to the Commission to assist it in carrying out its unique responsibilities. The Virginia City project will very likely not succeed unless it has a high profile board of directors that functions as the Commission currently does. As noted in the audit, the Commission has been able to secure millions of dollars to help preserve this important part of our history and the US history of Western expansion. This will not happen if the project is a small bureau in a \$114 million agency such as FWP. There are too many competing interests in FWP to allow for a focus on the Virginia City project. The 55th Legislature wanted the project to be run on the "fringes" of government, like a business, with the idea that the Commission should try to make it work as a stand-alone operation. A good example of the benefits of a high profile board can be seen in the Commission's lobbying efforts to secure a direct federal appropriation. As you may have seen in the news, thanks to Senator Burns, the Commission is a step closer to obtaining a grant of \$2.5 million via the National Park Service. This is a result of direct lobbying efforts by the Commission. This very likely could not have happened in an association with FWP. FWP has too many other priorities for something like this to surface.
2. The audit compares Virginia City and Nevada City to a state park. The responsibility for managing these historic properties far surpasses anything the state has within the state park system. The location of the properties, interspersed throughout an existing community; the need to operate as a business; and to become self-sustaining require the active involvement of a citizen Commission.
3. The residents of Virginia City and Madison County have not been asked in a formal way their thoughts about the "state park" designation and change to the Fish, Wildlife and Parks Commission as the managing board. A public process that allows members of the community to consider this change would provide local input. Virginia City is a "living" town, has about 150 residents, and is the county seat. The State of Montana owns only a portion of the buildings and land in the town. The Town Council has not considered the recommendations in the audit, and the County Commissioners have not had a chance to comment or discuss in a public forum these proposed changes.

4. The audit did not identify any compliance concerns. Yet it recommends changing the role of the Commission to be advisory only. Since the acquisition of the historic properties in Virginia City and Nevada City the Commission has worked diligently to fulfill its obligations. The Commission has put staff in place to manage these resources as a business, with very limited state funding. The Commission recognizes and appreciates the intention of the legislature that these properties become self-sustaining.
5. The FWP Commission has a full plate of fish and game issues that could place Virginia City issues at a lower priority. Any commission that oversees the towns must be able to operate with a maximum amount of flexibility in order to fulfill its mission of both preserving and developing the assets to which it has been entrusted. In addition, the project will not succeed unless residents of the towns actively participate and have direct access to a board of directors.
6. The audit suggests that FWP is more appropriately positioned because it has staff dedicated to managing facilities in remote locations around the state. There is not another FWP-managed property in Montana that can compare in complexities to the Virginia City project. The Commission has five years of experience managing these complexities.
7. The State Parks Division has listed in the State Park Futures Committee Report the significant fiscal resources it needs (see above). The Commission is concerned that these needs would compete with the significant needs in Virginia City.
8. While the Commission could be 'attached for administrative purposes only' to any of a variety of agencies, there is no agency within state government that is more uniquely qualified and positioned to manage the properties than a focused group that is dedicated to this project and able to work with at least 12 local interest groups. Other than the Commission, no one state entity has experience and expertise in hotel management, public transportation, restaurant management, live theater, steam train operations, curation, managing liquor licenses, and working with chamber of commerce advertising campaigns.
9. The Commission supports the intent and direction provided by the 55th Legislature. In the broader context government is being asked to perform more and more services, but there is less and less money available to carryout those services. The Virginia City project was and is a deliberate attempt to push a function to a new approach that will not rely solely on state tax dollars. It is a unique public/private partnership that will outline a path that others may follow. The existing model honors the intent of the 55th Legislature.
10. The Governor's Office supports Senate Bill 232, which was introduced by Senator Dale Mahlum. SB 232 administratively attaches the Commission to the

Department of Commerce without revising any of the statutes that currently control how the Commission operates.

SUMMARY

The Virginia City project is not only unique in Montana, but also across the United States. It combines history, the private sector, and government into one pot. It is an exciting, challenging endeavor that has built considerable momentum.

The responsibilities of the Commission are unique among state agencies. There is no other entity within state government that has the charge to protect historical resources and manage them towards economic independence. This is an important task for the state of Montana and will set precedent for state government. Members of the Commission have been, and will continue to be, selected based on the expertise they bring to the Commission to assist it in carrying out these responsibilities.

The Russell Museum in Great Falls had a similar start. Local government once owned many of the assets of the museum. Over the years all of the assets were transferred to the Museum's 501(c) (3) corporation and the museum has obtained complete self-sufficiency. It has accomplished this through the development of both a statewide and a national constituency. This has allowed for local and national fund raising efforts.

The Virginia City project will take a number of years to reach this goal. The multi-million dollar deferred maintenance backlog means that we have a lot of work ahead of us.

Now that we have built up significant momentum, helped to focus statewide and national interest on the cities, and associated so much good with the towns, it is not the best time to change course.

The best interests of Virginia City are served with a dedicated, decision-making board focused on the many issues that will lead to success.

The latest biennial report prepared for the Governor and the Legislature follows. It provides a background for this document and should be considered part of the response.

Thank you for allowing the Commission to respond.

Respectfully submitted by the Montana Heritage Commission,

Jeffrey Tiberi
Executive Director
10th February 2003

